

DBRS Morningstar Confirms Banca Sella's LT Issuer Rating at BBB (low), Trend Now Stable

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings of Banca Sella Holding S.p.A. (Sella or the Group) and its main operating subsidiary Banca Sella S.p.A. (the Bank), including the Long-Term Issuer Rating of BBB (low) and the R-2 (middle) Short-Term Issuer Rating. The Bank's Deposit ratings were confirmed at BBB/R-2 (high), one notch above the IA, reflecting the legal framework in place in Italy which has full depositor preference in bank insolvency and resolution proceedings. The trend on the Group's long-term and short-term ratings was changed to Stable from Negative. DBRS Morningstar has also maintained the Intrinsic Assessment (IA) for Banca Sella S.p.A. at BBB (low) and the Support Assessment at SA3 for Banca Sella Holding S.p.A. and SA1 for Banca Sella S.p.A.. The IA on Banca Sella Holding S.p.A. has been withdrawn and the BBB (low) IA remains in place at the operating bank. The SA1 reflects Banca Sella S.p.A.'s strong integration with the parent and its 78.63% ownership by Banca Sella Holding S.p.A.. DBRS Morningstar rates Banca Sella S.p.A. and Banca Sella Holding S.p.A. at the same level as they are both regulated banking entities. A full list of rating actions is included at the end of this press release.

KEY RATING CONSIDERATIONS

In reverting the trend to Stable from Negative, we have taken into account that our concerns have reduced regarding the potential impact of COVID-19. In particular, we note the Group's improved profitability driven by capital gains from the deconsolidation of Hype, improved operating efficiency, and lower cost of risk compared to 2020. This also reflects our view that revenues will continue to benefit over the medium term from digital banking, a strong contribution from non-interest income and stabilisation of the cost base, as laid out in its strategic plan. Nevertheless, the Group continues to report relatively weak efficiency ratios relative to peers.

In addition, the change in trend incorporates the continued improvement in asset quality with the Non-Performing Exposure (NPE) ratio now closer to domestic and European peers. Whilst the Russian invasion of the Ukraine brings additional uncertainty, we view the improvement in asset quality gives Sella more flexibility, especially given the absence of asset quality deterioration from the pandemic.

Finally, we also take into account that capital ratios have improved in 2021 and that we expect capital ratios to improve further thanks to the implementation of the AIRB models in 2022. However, we note that capital ratios remain at the low end of the peer group and, as a non-listed bank, the Group has more limited capital flexibility.

The confirmation of the ratings continues to reflect Sella's relatively small but solid and diversified franchise. Ratings are also underpinned by Sella's stable funding and liquidity position.

RATING DRIVERS

An upgrade of the Long-Term ratings would require improvements in efficiency levels and in capitalisation levels whilst maintaining current asset quality metrics.

A downgrade would arise from a substantial deterioration in capital, a material increase in NPLs or significant negative impact on profitability.

RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Moderate/Weak

The ratings incorporate Sella's stable market position in retail and commercial banking in its home region of Piedmont, as well as its relatively diversified business profile. The Group benefits from growing private banking, asset management, and open banking, as well as a small but solid market position in the payment system business. In addition, the Bank is active in digital banking, through its growing mobile application, "Hype", in which Sella remains a shareholder despite the recent sale of a 50% stake in the company.

Earnings Combined Building Block (BB) Assessment: Moderate/Weak

In 2021, the Group reported net attributable income of EUR 108.3 million, up more than threefold year-on-year (YoY) from EUR 29.6 million. Results in 2021 incorporated capital gains stemming from the deconsolidation of Hype, following the setup of the joint-venture with Illimity. Excluding this, net attributable income would have been up 73% YoY. Results were supported by lower provisions compared to 2020, which incorporated COVID-19 related provisions, and higher core revenues despite higher operating expenses. The cost to income ratio stood at 75.8%, compared to 79.7% a year earlier. We expect operating efficiency to continue improving in coming quarters.

Risk Combined Building Block (BB) Assessment: Moderate

The Group's asset quality has continued to improve in 2021 with the Group's gross NPE ratio reaching 4.2%, down from 5.7% as of end-2020 and 6.8% at end-2019 and we see this level as now comparing favourably to domestic banks and more in line with the average for European banks. The net NPL ratio was 2.2% at end-2021, compared to 2.9% at end-2020 and improved from 3.6% at end-2019. The unprecedented measures put in place by the domestic and European authorities have delayed the formation of NPLs following the COVID-19 pandemic. Therefore, we believe that some uncertainty still remains regarding the full effect of the COVID-19 pandemic on asset quality. In addition, the macroeconomic outlook has been made less clear by Russia's invasion of Ukraine, although Sella has no direct exposure to Russia and Ukraine. Nevertheless, we understand Sella will proceed with additional bad loan disposals, which should give the Group more flexibility to absorb a potential new influx of NPEs.

Funding and Liquidity Combined Building Block (BB) Assessment: Good

DBRS Morningstar views Sella's funding profile as good, supported by its large deposit retail franchise and limited reliance on wholesale funds. The Group's wholesale funding is mainly composed of ECB funding, in the form of TLTRO 3 funds, and asset backed securities. At end-2021, Sella's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) remained well above regulatory requirements at 199% and 134% respectively.

Capitalisation Combined Building Block (BB) Assessment: Moderate/Weak

Whilst Sella's capitalisation remains modest, capital ratios have improved in 2021 thanks to internal capital generation, bad loan disposals and the partial sale of Hype. We expect capital ratios to improve further thanks to the implementation of the AIRB models in 2022. Sella reported at end-2021 a phased-in CET1 ratio of 12.3%, stable from end-2020. The phased-in Total Capital ratio

was 14.2%, stable from end-2020. This provides the Group with adequate cushions over the minimum requirements set by the Bank of Italy for 2022 for CET1 of 7.28% and 11.0% for Total Capital

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/396483>.

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/373262>.

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (19 July 2021) <https://www.dbrsmorningstar.com/research/381742/global-methodology-for-rating-banks-and-banking-organisations>. Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (3 February 2021) <https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>

The sources of information used for this rating include Morningstar Inc. and Company Documents and Sella Q4 2021 Press Release. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/396482>.

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

Lead Analyst: Arnaud Journois, Vice President - European Financial Institutions

Rating Committee Chair: Elisabeth Rudman - Managing Director, Head of European FIG - Global FIG

Initial Rating Date: July 7, 2014

Last Rating Date: May 7, 2021

DBRS Ratings GmbH
 Neue Mainzer Straße 75
 Tel. +49 (69) 8088 3500
 60311 Frankfurt am Main Deutschland
 Geschäftsführer: Detlef Scholz
 Amtsgericht Frankfurt am Main, HRB 110259

For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

Banca Sella Holding SpA

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
06-May-22	Long-Term Issuer Rating	Trend Change	BBB (low)	Stb	EU U
06-May-22	Short-Term Issuer Rating	Trend Change	R-2 (middle)	Stb	EU U
06-May-22	Long-Term Senior Debt	Trend Change	BBB (low)	Stb	EU U
06-May-22	Short-Term Debt	Trend Change	R-2 (middle)	Stb	EU U
06-May-22	Short-Term Deposits	Trend Change	R-2 (high)	Stb	EU U
06-May-22	Long-Term Deposits	Trend Change	BBB	Stb	EU U

Banca Sella S.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
06-May-22	Long-Term Issuer Rating	Trend Change	BBB (low)	Stb	EU U
06-May-22	Short-Term Issuer Rating	Trend Change	R-2 (middle)	Stb	EU U
06-May-22	Long-Term Senior Debt	Trend Change	BBB (low)	Stb	EU U
06-May-22	Short-Term Debt	Trend Change	R-2 (middle)	Stb	EU U
06-May-22	Short-Term Deposits	Trend Change	R-2 (high)	Stb	EU U

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
06-May-22	Long-Term Deposits	Trend Change	BBB	Stb	EU U
06-May-22	Mandatory Pay Subordinated Debt (ISIN: XS1687277555)	Trend Change	BB	Stb	EU U
06-May-22	Mandatory Pay Subordinated Debt (ISIN: XS2030489632)	Trend Change	BB	Stb	EU U
06-May-22	Mandatory Pay Subordinated Debt (ISIN: XS1311567314)	Disc.- Repaid	Discontinued	--	EU

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE [DISCLAIMERS AND LIMITATIONS](#). ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON WWW.DBRSMORNINGSTAR.COM.

Contacts

Arnaud Journois

Vice President - European Financial Institutions

+49 69 8088 3526

arnaud.journois@dbrsmorningstar.com

Elisabeth Rudman

Managing Director, Head of European FIG - Global FIG

+44 20 7855 6655

elisabeth.rudman@dbrsmorningstar.com

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: <https://www.dbrsmorningstar.com/research/highlights.pdf>.

The DBRS Morningstar group of companies are wholly-owned subsidiaries of Morningstar, Inc. © 2022 DBRS Morningstar. All Rights Reserved.

The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. \$100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice.

Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable.

A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities.

DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities.

This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON <https://www.dbrsmorningstar.com>. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.